

COVID-19 and Globalization, An Analysis

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Abstract: COVID-19 pandemic is not only affecting global citizen's health but also global economic health. Globalization has been a surge from the last couple of decades, which has both positive and negative effects on our society. Because of globalization, many countries enjoyed less scarcity of essential goods and services. Notably, India and China achieved higher economic growth and a higher standard of living due to the last couple of decades. COVID-19 will affect human societies in many ways. This paper investigates the effect of COVID-19 pandemic on the globalization. It is challenging measuring the effect because of the uncertainty of this natural phenomenon, and the reaction of human behavior. However, the author tried to make the best use of available resources to investigate. This paper uses variables like economic growth, unemployment, and trade at a global level. Analysis suggests that slowing down economic activities and dependency on other countries for necessary goods like medication and PPE equipment can encourage economies to be more self-sufficient. After this pandemic end, it can encourage economies towards deglobalization.

JEL codes for the project: E00, F10, F62

Keywords: COVID-19, Macroeconomics, Globalization, International Trade, Economic Growth, Unemployment

Introduction

Globalization is the interaction among people, companies, and governments across the world. It is not a new phenomenon that people are interacting with each other at the global level for thousands of years. The silk road connected Asia from Europe during the middle ages. Today this process is driven by trade, tourism, technology, govt. Policies and economic growth. Globalization has facilitated our societies in many ways human lifespan has been increased because people can get the medication on time, reduced mortality rate, reduced poverty, and a higher standard of living across the globe. People are never connected in the history of humankind in the way we are today. However, it has also created problems like climate change and cultural issues. Since countries are trading, they are producing more, which creates negative externalities like pollution. As people are traveling more either for business or for entertainment, they are having more exposure to other countries. Some scholars worried that it could diminish the old heritage culture of some countries.

COVID-19 (coronavirus disease 2019), originated in Wuhan, China, on December 31st, 2019, has been devastating not only to the health of humans but also to the economic health of the countries. The World Health Organization has declared COVID-19 a pandemic on March 11th, 2020, more than two months after the first reported case. Since then, it is increasing in many parts of the world, and economic activity has been reduced significantly. As of May 15th, more than 1.4 million people are affected, with more than 86 thousand deaths worldwide.

Scope and Purpose of the Study

The goal of this paper is to investigate the impact of COVID-19 on globalization. Will this pandemic reverse the globalization? Will this natural phenomenon lead the countries toward deglobalization? To find the answer to these questions, this study will analyze the economic impact of COVID-19 through looking at economic growth, unemployment rate, and trade data of the countries.

There are already some research and studies dealing with the effect of COVID-19 pandemic on globalization. There is no doubt that economic activity has slowed down across the world because of lockdown. According to Baldwin and Tomiura (2020), as of March 2nd, 2020, the nations with the most reported cases include (in order) China, Korea, Italy, Japan, U.S., and Germany – with the cases proliferating especially in the U.S., Italy, and Germany. These six hard-hit nations account for: about 55% of world supply and demand (GDP), about 60% of world manufacturing, and 50% of world manufacturing exports. When these economies are on completely lockdown, it is an economic loss that will be felt across the globe. COVID-19 pandemic has a more significant effect on the global supply chain, according to Luo and Tsang (2020). Based on our most conservative estimate, China suffers about a 4% loss of output from labor loss, and global output drops by 1% per period due to the economic contraction in China. About 40% of the impact is indirect, coming from spillovers through the supply chain inside and outside China.

The economic slowdown has also affected the global stock exchange, according to Ramelli & Wagner (2020). This seems a fairly obvious observation resulting from the growing number of infections in most countries, closing schools, and promoting social distancing measures well as sharp declines on global stock

exchanges. Companies react by cutting investment expenditure, which negatively increases productivity and can, in turn, lead to a recession (Fornaro, Wolf, 2020).

It is complicated to find the answers to the questions discussed above because the author is aware of the limitation of this research because this is an unprecedented event, and human behaviour is uncertain to predict. According to Sforza and Steininger(2020), globalization allows firms to source intermediate inputs and sell final goods in many different countries. Experts Seric and Winkler predict that as a result of coronavirus, the world will see a surge in automation while seeing globalization diminish. Understanding the effects of a global production disruption induced by a pandemic is complex. The first part of this paper is the introduction, and the second part will analyze the effect of COVID-19 on economic growth, unemployment, and trade, and the third part is the conclusion and recommendations of the research.

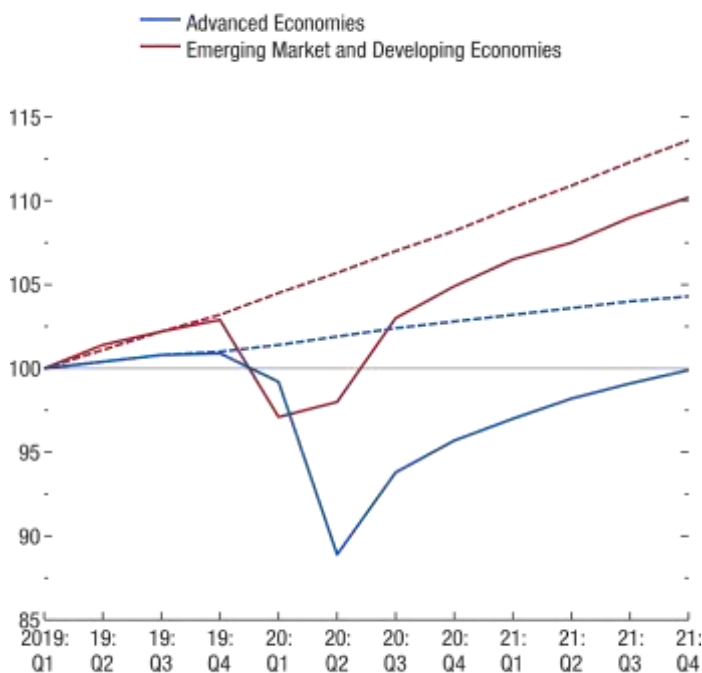
This paper is based on the analysis of available research, secondary data, reports, and literature from the international monetary fund, BLS, OECD. The author is aware of the lack of research on this topic because of the uncertainty around the world. The main limitation of this paper is the relatively limited availability of the literature and data on this subject. For developed countries like The United States, data is very readily available but not in other parts of the world, especially for developing and emerging economies.

Economic Growth:

Long term sustainable economic growth is one of the most desired goal for any country (Shukla, (2017a)).The COVID-19 pandemic made countries lockdown and stayed in isolation, which reduced economic activity levels significantly. There is no doubt about the slower growth and recession in the coming months across the globe. There is extreme uncertainty about the economic growth forecast around the world. According to the World economic outlook, April 2020, the global economy is projected to contract sharply by -3 percent in 2020, much worse than during the 2008-09 financial crisis. The economic fallout will be uneven among the countries it depends on factors that interact in ways that are hard to predict, including the pathway of the pandemic, the extent of supply disruptions, the repercussions of the dramatic tightening in global financial market conditions, shifts in spending patterns, behavioral changes, change in market structure, consumer confidence effects, and volatile commodity prices. Below is the graph that shows the quarterly world GDP, divided into advanced and emerging markets and developing economies.

Figure 1.6. Quarterly World GDP

(2019:Q1 = 100; dashed lines indicate estimates from January 2020 World Economic Outlook Update)



Source: IMF staff estimates.

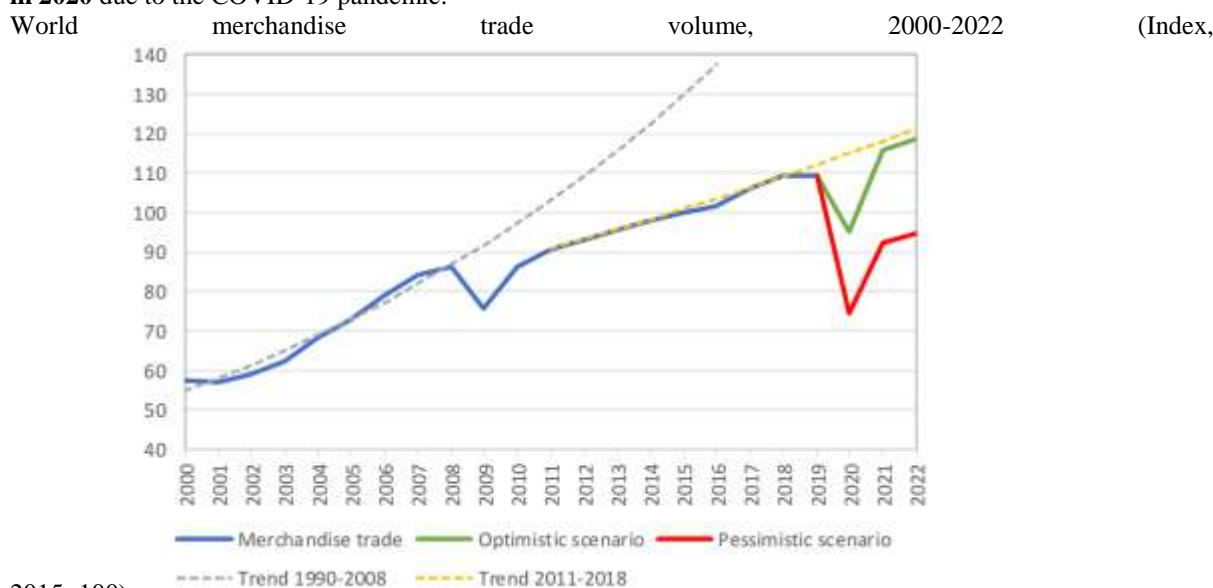
The graph shows that the economic effect of the COVID-19 pandemic is worse in the advanced economies than the emerging and developing economies. Because in the developed world, the share of the durable product compares to the nondurable product is higher. While in the developing and emerging countries, the share of nondurable goods is higher than the durable goods. During the economic downturn, this is human nature to buy mostly nondurable and necessary goods people do not want to spend money on durable and luxurious goods because of the uncertainty and gloomy market. Economic growth in the advanced economy group where several economies are experiencing widespread outbreaks and deploying containment measures is projected at -6.1 percent in 2020 among emerging market and developing economies. The group of emerging market and developing economies is projected to contract by -1.0 percent in 2020, (Economic outlook 2020). When economic growth reduces, countries will be in the recession that will reduce the economic activity among countries as well, which can lead them towards the deglobalization.

Unemployment Rate:

As the COVID-19 pandemic has slowed down the economic activities, its next impact that economies are facing is layoffs. According to (Shukla, (2017b), there is a strong positive relationship between human capital and economic growth. The number of unemployed people has increased dramatically across the world. It is too early to capture this data at a global level; however, the U.S. Bureau of Labor Statistics has reported that the unemployment rate in the United States rose to 14.7 percent in April, the worst since the Depression-era. The International Labor Organization (ILO) estimates that global unemployment could increase by almost 25 million (ILO, 2020). When economies are suffering from higher unemployment there first goal is to protect their citizens. Immigration and outsourcing will diminish in order to give jobs to there own citizens. It can lead the countries to deglobalization.

Trade

Trade was already slowing in 2019 because before the virus struck, weighed down by trade tensions and slowing economic growth. As a result of the COVID-19 pandemic, many countries have banned or impose restrictions on interpersonal interactions, social, cultural, and international trade exchange. According to WTO 2020 press releases world merchandise trade has registered a slight decline in the year of -0.1% in volume terms and after rising by 2.9% compared to the previous year. The dollar value of world merchandise exports in 2019 fell by 3% to US\$ 18.89 trillion. **Approximately all regions will suffer double-digit declines in trade volumes in 2020**, with exports from North America and Asia hit hardest. According to Luo and Tsang (2020). Firms are interconnected through trade within and across sectors with specialized productions. The production linkages among firms serve to propagate shocks along the supply chain and ultimately affect the aggregate economy. According to WTO, **World merchandise trade is set to plummet by between 13 and 32% in 2020** due to the COVID-19 pandemic.



2015=100)

Source: WTO Secretariat.

The graph above is the future trade performance predicted by WTO. There are two distinct scenarios: (1) a relatively optimistic scenario, with a sharp drop in trade followed by a recovery starting in the second half of 2020, and (2) a more pessimistic scenario with a steeper initial decline and a more prolonged and incomplete recovery. Under the optimistic scenario, the recovery will be strong enough to bring trade close to its pre-pandemic trend, represented by the dotted yellow line, while the pessimistic scenario only envisages a partial recovery. Given the level of uncertainties, it is worth emphasizing that the initial trajectory does not necessarily determine the subsequent recovery.

Many countries are currently facing supply shortages of critical medical equipment like a ventilator, particularly from China, which has also been labeled 'supply-side contagion' (Baldwin and Tomiura 2020). It can encourage countries to be self-sufficient, especially for necessary goods. Countries like the USA have learned their lesson. They will put trade restrictions on the place to protect and encourage their domestic industries that is what happened after the great depression. According to Eichengreen & Irwin (2010) between 1928 and 1935, exchange-control nations on average reduced imports some 26 percent more than expected from the change in their real GDP, Protective trade policies will reduce the trade among the countries, which will lead to deglobalization.

Conclusion

This study concludes that the COVID-19 pandemic will affect globalization negatively, at least for the short term. The analysis represents the unprecedented disruption to the global economy and world trade, as production, consumption, trade, supply chain is scaled back across the globe. The inevitable decline in trade and output and increasing unemployment will harm households and businesses painfully, on top of the human suffering caused by the disease itself. This paper suggests the immediate goal is to bring the COVID-19 pandemic under control, find the vaccine, and mitigate the economic damage to people, companies, and countries. Policymakers must start planning for the aftermath of the COVID-19 pandemic because the estimates of the expected recovery in 2021 around the globe are equally uncertain. It will depend largely on the duration of the outbreak and the effectiveness of the policy responses.

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